



COMPANY submits initial five-year build-out Service Quality Improvement plan pursuant to C.F.R. §54.202(a)(1)(ii) that specifies proposed improvements or upgrades to the COMPANY's network throughout its service area. In addition, COMPANY is providing information that includes an estimate of the population that will be serviced as a result of these improvements. The receipt of USF support, combined with other funding sources will allow COMPANY to continue to meet its broadband obligations within its service area, complete service request within a reasonable amount of time, provide reliable, state-of-the-art, high-quality voice and broadband service, to its [REDACTED] rural customers in six exchanges. The projects listed within this plan will be used to improve or upgrade the network over the next five years:

[illegible][illegible]

LOCAL EXCHANGE RATES AND REGULATIONS

3. TEL-ASSISTANCE SERVICE (CONT'D)

Rates (cont'd)

Tel-Assistance subscribers are not required to pay the Federal Subscriber Line Charge.

A first-time Tel-Assistance subscriber may, at his or her option and for a period of 120 days following the commencement of his or her Tel-Assistance Service, change back to the service he or she had immediately prior to commencement of his or her Tel-Assistance service, and the following regulations will be in effect for such changes in service:

No nonrecurring service change charges will apply.

The customer will be billed only the local exchange rates and charges for the time that his or her Tel-Assistance Service was in effect that would have been charged for that period had the subscriber not subscribed to Tel-Assistance service.

4. LOW-INCOME PROGRAMS

The Company, as part of its obligations as an Eligible Telecommunications Carrier, offers one (1) low-income assistance program. This program, Lifeline Assistance, is offered under the terms and conditions provided below: (C)

A. Lifeline Assistance

1. General

Lifeline Assistance is a retail service offering available to qualifying low-income subscribers, as provided for below. Lifeline Assistance enables eligible subscribers to pay reduced charges for the following package of services: voice-grade access to the public switched network; voice grade access to the public switched network or its functional equivalent; minutes of use for local service provided at no additional charge to end users; access to the emergency services provided by local government or other public safety organizations, such as 911 and enhanced 911, to the extent the local government in an eligible carrier's service area has implemented 911 or enhanced 911 systems; and toll limitation services to qualifying low-income consumers. (C)

Issued by authority of an Order of the Public Service Commission of West Virginia in Case No. 12-0914-T-T dated July 30, 2012, effective August 1, 2012.

Issued June 30, 2012

Effective August 1, 2012

LOCAL EXCHANGE RATES AND REGULATIONS

4. LOW-INCOME PROGRAMS (CONT'D)

A. Lifeline Assistance (Cont'd)

2. Regulations

- a) Unless other eligibility requirements are established by the Commission, Lifeline Assistance is available to all subscribers who participate in one of the following programs: Medicaid; Supplemental Nutrition Assistance Program (SNAP), formerly known as food stamps; Supplemental Security Income (SSI); Federal Public Housing Assistance; Low-Income Home Energy Assistance Program (LIHEAP); National School Lunch Program's free lunch program; Temporary Assistance for Needy Families (TANF), or whose household income is below 135% of the Federal Poverty Guidelines for a household of that size. (C)
- b) Each subscriber to Lifeline Assistance must certify in writing to the Company, under penalty of perjury, that she/he receives benefits under a program outlined in sub-paragraph (b) (1), above, and must, on that same document, agree to notify the Company if she/he ceases to participate in the program. The certification form shall conform to the requirements described herein, and shall be made available upon request to any subscriber. The Company shall retain all such subscriber certifications in order to furnish proof of subscriber eligibility as may be required from time to time by Universal Service administrators. (C)
- c) (D)  
(D)  
(D)
- d) A subscriber may elect at the time of subscription or later to Lifeline Assistance to receive toll limitation as part of Lifeline Assistance. "Toll limitation" is a service that allows a subscriber to elect not to allow the completion of outgoing toll calls from the subscriber's residence.

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LOCAL EXCHANGE RATES AND REGULATIONS

4. LOW-INCOME PROGRAMS (CONT'D)

A. Lifeline Assistance (Cont'd)

2. Regulations (Cont'd)

- a) Lifeline Assistance will not be disconnected for non-payment of toll charges, unless the Company first obtains a waiver from the Commission by demonstrating to the Commission that the Company would otherwise incur substantial costs, that the Company offers toll limitation without charge, and that telephone subscribership among low-income consumers. For purposes of this paragraph, a "low-income consumer" is one with an income below the poverty level for a family of four residing in West Virginia. The Company shall follow all applicable notice provisions as established, from time to time, by the Commission, as part of using a waiver, if granted. The Company may apply for waivers as necessary.
  - f) The Company may not collect a service deposit in order to initiate Lifeline Assistance if the qualifying low-income subscriber voluntarily elects toll limitation from the Company.
3. Lifeline Assistance provides a Federal credit of \$9.25 on the subscriber's monthly service bill.

(C)  
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(C)

- 4. The Company shall apply the baseline payments received by the administrator of the federal Lifeline Assistance program to waive the qualifying customers' federal End-User Common Line Charge. The Company shall apply any additional federal support amount to the qualifying customer's basic local exchange service rate.
- 5. To be eligible for Lifeline Assistance, qualifying customers must subscribe to the lowest priced, basic local exchange service offering that is made available at the subscriber's domicile.

Superseding

LOCAL EXCHANGE RATES AND REGULATIONS

4. LOW-INCOME PROGRAMS (CONT'D)

A. Lifeline Assistance (Cont'd)

6. Partial payments that are received from Lifeline customers shall first be applied to local service charges and then to any outstanding toll charges.

B. Link Up

1. General

The Link Up program has been eliminated by the Federal Communications Commission effective April 1, 2012.

(C)  
(C)

(D)

(D)

Issued by authority of an Order of the Public Service Commission of West Virginia in Case No. 12-0422-T-T dated April 17, 2012, effective May 6, 2012.

Issued April 6, 2012

Effective May 6, 2012

Armstrong Telephone Company-Northern Division  
(Corporate Name)

P.S.C. No. 3 Telephone

Section 3

Original Leaf No.

First Revised Leaf No. 20

Original Leaf No. 20

Superseding

LOCAL EXCHANGE RATES AND REGULATIONS

4. LOW-INCOME PROGRAMS (CONT'D)

(D)

(D)

C. All aspects of the Lifeline Assistance program shall be subject to the interpretation of applicable Federal regulations and any directives which may from time to time be prescribed by the Universal Service Administrative Company. These rules are separate and apart from any rules prescribed as part of a state Universal Service program.

(C)

Issued by authority of an Order of the Public Service Commission of West Virginia in Case No. 12-0422-T-T dated April 17, 2012, effective May 6, 2012.

Issued April 6, 2012

Effective May 6, 2012

**MOSS ADAMS** LLP  
Certified Public Accountants | Business Consultants

## REPORT OF INDEPENDENT AUDITORS

Board of Directors  
Armstrong Telephone Company – Northern Division, Inc.

### **Report on Financial Statements**

We have audited the accompanying financial statements of Armstrong Telephone Company – Northern Division, Inc. (Company), which comprise the balance sheets as of September 30, 2013 and 2012, and the related statements of income, stockholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



**REPORT OF INDEPENDENT AUDITORS**  
**(continued)**

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Armstrong Telephone Company - Northern Division, Inc. as of September 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**MOSS ADAMS LLP**

Spokane, Washington  
January 14, 2014



**ARMSTRONG TELEPHONE COMPANY - NORTHERN DIVISION, INC.**  
**BALANCE SHEETS**

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**ASSETS**

	September 30,	
	2013	2012
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 366,726	\$ 565,664
Subscriber accounts receivable, net of allowance of \$3,241 and \$7,783 in 2013 and 2012, respectively	371,007	366,227
Other accounts receivable, net of allowance of \$1,072 and \$2,485 in 2013 and 2012, respectively	556,028	545,437
Material and supplies	168,676	196,541
Income tax receivable, parent company	-	185,867
Other current assets	55,772	126,416
Total current assets	<u>1,518,209</u>	<u>1,986,152</u>
<b>PROPERTY, PLANT, AND EQUIPMENT</b>		
Telecommunications plant in service	18,584,050	21,254,364
Nonregulated plant in service	474,042	458,112
Telecommunications plant under construction	1,973	17,621
	<u>19,060,065</u>	<u>21,730,097</u>
Less accumulated depreciation	<u>15,168,744</u>	<u>17,126,496</u>
	<u>3,891,321</u>	<u>4,603,601</u>
	<u>\$ 5,409,530</u>	<u>\$ 6,589,753</u>

**ARMSTRONG TELEPHONE COMPANY - NORTHERN DIVISION, INC.**  
**BALANCE SHEETS**

**LIABILITIES AND STOCKHOLDER'S EQUITY**

	September 30,	
	2013	2012
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 351,533	\$ 520,332
Advance billing	255,863	215,735
Related party note payable	-	1,110,000
Income tax payable, parent company	89,117	-
Accrued interest payable	-	1,243
Other accrued taxes	49,051	27,022
Other accrued liabilities	222,113	190,386
	<u>967,677</u>	<u>2,064,718</u>
<b>OTHER LIABILITIES AND DEFERRED CREDITS</b>		
Deferred income taxes	402,542	558,579
	<u>402,542</u>	<u>558,579</u>
<b>STOCKHOLDER'S EQUITY</b>		
Common stock (\$1,000 par value; 250 shares authorized, 135 shares issued and outstanding)	135,000	135,000
Retained earnings	3,904,311	3,831,456
	<u>4,039,311</u>	<u>3,966,456</u>
	<u>\$ 5,409,530</u>	<u>\$ 6,589,753</u>

**ARMSTRONG TELEPHONE COMPANY - NORTHERN DIVISION, INC.**  
**STATEMENTS OF INCOME**

	Years Ended September 30,	
	2013	2012
Operating revenues		
Wireline		
Customer	\$ 1,641,000	\$ 1,618,179
Intercarrier		
Interstate	1,361,425	1,036,404
Intrastate	862,587	1,019,986
Universal service support - federal	1,318,279	1,619,861
	<u>5,183,291</u>	<u>5,294,430</u>
Internet	<u>1,173,612</u>	<u>1,133,684</u>
Miscellaneous		
Equipment	116,516	111,581
Carrier billing and collection	17,924	17,844
Other	17,905	14,777
Directory	43,210	45,294
Uncollectible	<u>(9,411)</u>	<u>14,236</u>
	<u>186,144</u>	<u>203,732</u>
Total operating revenues	<u>6,543,047</u>	<u>6,631,846</u>
Operating expenses		
Plant specific operations	1,679,859	1,632,312
Plant nonspecific operations	731,068	624,740
Depreciation	943,457	1,084,984
Customer operations	661,162	662,091
Corporate operations	1,735,852	1,645,922
Other operating taxes	-	190,386
Nonregulated	<u>567,848</u>	<u>430,326</u>
	<u>6,319,246</u>	<u>6,270,761</u>
Net operating income	<u>223,801</u>	<u>361,085</u>
Nonoperating income (expense)		
Interest and dividend income	92	137
Interest expense	(709)	(1,603)
Other nonoperating income (expense)	52,033	(1,522)
	<u>51,416</u>	<u>(2,988)</u>
Income before income taxes	<u>275,217</u>	<u>358,097</u>
Income tax expense	<u>(202,362)</u>	<u>(290,170)</u>
Net income	<u>\$ 72,855</u>	<u>\$ 67,927</u>

**ARMSTRONG TELEPHONE COMPANY – NORTHERN DIVISION, INC.**  
**STATEMENTS OF CASH FLOW**

	Years Ended September 30,	
	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 72,855	\$ 67,927
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	943,457	1,084,984
Deferred income taxes	(156,037)	(166,161)
Change in assets and liabilities		
Receivables	(15,371)	5,504
Material and supplies	27,865	3,431
Other assets	70,644	(77,844)
Accounts payable	(168,799)	204,018
Advance billing	40,128	3,176
Income taxes payable/receivable	274,984	(297,515)
Other accrued liabilities	52,513	(30,209)
Net cash from operating activities	<u>1,142,239</u>	<u>797,311</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net acquisition of nonregulated equipment	(15,929)	(3,114)
Net acquisition of property, plant, and equipment	(215,248)	(397,460)
Proceeds from sale of property, plant, and equipment	-	20,701
Net cash from investing activities	<u>(231,177)</u>	<u>(379,873)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on related party note payable	(1,110,000)	(690,000)
Proceeds from related party note payable	-	350,000
Net cash from financing activities	<u>(1,110,000)</u>	<u>(340,000)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<u>(198,938)</u>	<u>77,438</u>
<b>CASH AND CASH EQUIVALENTS at beginning of year</b>	<u>565,664</u>	<u>488,226</u>
<b>CASH AND CASH EQUIVALENTS at end of year</b>	<u>\$ 366,726</u>	<u>\$ 565,664</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION</b>		
Cash paid during the year for		
Interest	\$ 1,951	\$ 6,870
Income taxes	\$ 161,800	\$ 421,500